

Critical Review of Literature on Diversity in Top Management Team and Organizational Performance: A Research Agenda

¹Jane Muthoni Kinuthia, ²Stephen Muathe

¹Department of Human Resource Management, school of Business, Kenyatta University, Kenya

²Department of Business administration, school of Business, Kenyatta University, Kenya

Abstract: This paper is a theoretical review of the concept of TMT diversity effect on organizational performance. There have been several policies that have been instituted to ensure that TMTs are heterogeneous. A good example is the rule that requires board of governors to have a third representation of women. Extant studies on TMT diversity and organizational performance have shown inconclusive results. The existing SHRM models on managing of diversity are still weak. From the empirical literature review, it is evident that there exists a black box between TMT diversity and organizational performance. These studies recommend the exploration of the black box in order to demystify the relationship. The study focuses on inclusion as a moderating variable of the relationship. In the theoretical review section, upper echelon theory, resource based view theory; social identity theory and optimal distinctive theory are critically reviewed. The upper echelon theory organizational outcomes are determined by the characteristics of TMT. The more diverse the team, the wider the perspective of the team on issues at hand which makes decision making better. This theory does not however explain how conflicts which are common with diverse teams can be overcome. The RBV explains TMT diversity which is seen as a strategic resource which is rare, heterogeneous, and valuable and takes time to create hence is non-imitable. The social identity theory explains people socialization processes. People identify themselves with other individuals of the same social group. The theory supports inclusion by stating that it is important for the diverse team to be socially integrated to overcome conflict. This theory explains the theoretical gap identified in the upper echelon theory. The Optimal distinctive theory states that an individual has two opposing needs; need for belongingness and need for uniqueness. It shows that the benefits of diversity can only be experienced when the unique individuals feel accepted into the group (inclusion). Nevertheless, this theory does not clearly outline how this inclusion can be achieved which is a theoretical gap. This review recommends the exploration of the black box in order to demystify the relationship. It further recommends the TMT diversity in terms of age, tenure, functional diversity and gender. Organizational performance should be measured using the balanced scorecard that gives a comprehensive measure compared to other performance indicators.

Keywords: Diversity of top Management team, Inclusion, Performance.

1. INTRODUCTION

Strategic human resource management (SHRM) can be defined as “a function that involves systematically linking human resource management philosophy and practices to the strategic and social needs of the organization” (Alcazar, Fernandez & Gardey 2012). SHRM is observed to be a number of practices and policies aimed at developing attracting talent. The human resource department today has been recognized to have the ability to play a critical role of defining and promoting the achievement of a company’s strategic goals. Human Resource planning (HRP), a core function of SHRM, involves the identification of the current and future human resource needs for an organization to meet its goals.

Conversely, the HR department has a role of ensuring that an organization has the right mix of employees at all levels. HRP task is particularly significant in the selection of the Top Management Team (TMT) which performs the most essential functions of the firm such as making of critical strategic decision, formulation of organizational policies among other key roles which greatly influence the success of an organization (Shen, Chanda & Monga 2009; Martell & Carroll 1995; Carson, Scott, Boyar; 2004). A diverse workforce especially at the management level has been associated with increased level of organizational effectiveness because having employees with different perspectives increases the level of creativity and quality of decisions made. This is an important capability especially when dealing with customers of the 21st century whose tastes and preferences are constantly changing (Hill et al 2016; Hunt, Layton and Prince 2015). Moreover, since the companies are now dealing with a diverse customer base, they are able to come up with ideas on how to custom goods and services to meet the need of each customer segment.

Miche, Dooley and Fryxell (2006), observes that the potential benefits of diversity are subject to certain liabilities. They observe that despite the fact that a diverse team has been observed as a source of knowledge, skills and information needed to tackle complex strategic issues, it has also been observed to hinder social integration, increase dysfunctional rivalries and slow down information flow. This study asserts that the relationship between TMT diversity and organizational performance depends on identification of moderating variable of the relationship between these variables (Miche, Dooley & Fryxell 2006).

According to Alcazar, Fernandez and Gardey (2012), SHRM models that have been presented towards management of diverse groups are still weak. They further assert that traditional affirmative action and traditional diversity management approaches have not been able to achieve the benefits accrued to having a diverse workforce. They recommend the inclusion of a moderating variable in order to understand the relationship between diversity and organizational performance.

Several researches have also been carried out on the importance of having a demographically diverse workplace in improving organizational performance. A diverse top management team is characterized by an array of beliefs, understandings, and way of thinking, values and unique way of doing things. With the increased globalization and internationalization of business operations, there is need to have a diverse workforce (Shen et al 2009; Lynn *et al* 2011). Other scholars have suggests that the latent benefits of having a diverse workforce can only be realized with an increase in the tolerance of individuality. When dealing with the issue of diversity, the question is not accepting the fact that individuals are different but it is creating an inclusive environment that shows genuine commitment to promotion of diversity (Kretz, 2007). This paper is a critical review of literature how TMT diversity relates to performance with the aim of developing a theoretical model of understanding these constructs.

2. LITERATURE REVIEW

2.1 Theoretical Review:

According to the upper echelon theories, organizational outcomes are to some extent determined by the managerial background and characteristics. These theories are based on the belief that the executives make choices depending on their personalized construct of the situations in which they operate (Hambrick & Mason, 1984). A study on fortune 500 firms by Martell and Carroll (1995) indicate that the executive role of the human resource management in picking TMT with emphasize on creative and innovative personality characteristics is linked to having employees with a diverse background and influences the ability of the TMTs in terms of flexibility and adaptability in a volatile environment. Nevertheless, having a demographically diverse TMT does not guarantee good firm performance. This is because diversity can either have positive or negative effect on information processing. Moreover, empirical evidence on TMT studies have showed mixed results and emphasized on the need to indentify intervening variables that explain this relationship (Umans 2013). Diversity results in group conflict which is counter-productive, the theory does not explain how the conflict can be resolved.

Another theory that supports the diversity of the TMT is Barney's (1991) resource based view (RBV) which states that a firm's competitive advantage will be found in the manner in which an organization applies the resources available to it. For a resource to give competitive advantage to an organization, it is required to be immobile and heterogeneous. Positive effects of TMT demographic diversity can be expected as it fulfills the requirements of a strategic resource.

Tajfel and Turner (1979) social identity theory states that individuals develop their self-concept from the categories and the social groups that they belong. Moreover, individuals are seen to value themselves depending on the social group that

they belong. People like members of their own subgroup than members of other groups. It informs on the need to have moderating and mediating factors since the positive effects of TMT diversity on firm performance will only dominate if its negative effects are kept under control.

Marilynn Brewer (1991) optimal distinctive theory postulates that people desire to gain an optimal balance of inclusion and distinctiveness. This means that they need to have a sense of belonging to a certain group but at the same time maintain their uniqueness. Having a diverse workforce brings a challenge of inclusion as people tend to categorize themselves. Uniqueness of a person will improve a group's performance if that unique individual feels accepted into that group. Exclusion on the other hand results with low sense of belongingness which can have undesirable effects on psychological health and work attitudes. This theory emphasizes the need for inclusion in order to enjoy the benefits of having a diverse TMT.

2.2 Empirical Review:

Diversity studies that have been conducted show mixed results on the effect of TMT diversity and firm performance. It is thus evident that there are other intervening variables that can be used to explain this relationship. There are several studies that have been carried out to demystify this black box.

According to Carpenter (2002) there exists ambiguity of the studies carried out on the effect of the heterogeneity of the TMT and firm performance. He asserted that in order to understand this relation, the social context strategy had to be taken into consideration. The diversity features studied in this research include education level, functional background and tenure. The study is a step towards a greater understanding of the construct as it controlled organizational size, TMT size and tenure average size which are seen to affect the diversity of the TMT. The findings of the study showed that diversity has a positive correlation with performance at minimal levels of complexity but becomes negative at high levels of complexity. Moreover, the research found that demographic effect had greater impact on the short-tenured team more than the long-tenured teams. The research proposes that further studies consider the conditions under which the correlation between TMT diversity and organizational performance.

Miche, Dooley and Fryxell (2006), agrees with Carpenter (2002) in that the potential benefits of diversity are subject to certain liabilities. They observe that despite the fact that a diverse team has been observed as a source of knowledge, skills and information needed to tackle complex strategic issues, it has also been observed to be hinder social integration, increase dysfunctional rivalries and slow down information flow. This study also proposes that the relationship between TMT diversity and organizational performance depends on identification of moderating variable of the relationship between these two variables. TMT collaboration is seen as a moderating factor for this relation and is seen to promote unified diversity. Unified diversity is defined as "an ongoing interaction of conflicting information within a shared framework which when successful will promote collaboration among team members" (Miche, Dooley & Fryxell 2006).

A study by Canella, Park and Lee (2008) asserts that the effect of TMT diversity on performance is affected by the context as they investigated the role of team member collocation (number of members in the same physical location) and environmental uncertainty. The study considered functional diversity and intrapersonal functional diversity. Financial measures were used to measure performance. The study found out that effect of TMT heterogeneity on firm performance is dependent on the context and how diversity is conceptualized. Functional diversity is observed to be negative for geographically dispersed teams but positive for collocated teams. It further concluded that despite the fact that the dominant functional diversity can have negative effect on TMT functioning intrapersonal functional diversity has positive effects.

According to Goll, Brown, Johnson and Rasheed (2008), the context (environment) and the business strategy should be considered when studying the benefits of TMT diversity. This is in agreement with Canella, Park and Lee (2008). They considered the moderating effect of the environment on this relationship and business strategy was studied as a mediating variable. The study applied the longitudinal approach using secondary data from the period of 1972-1995 on the US airline Industry.

The TMT diversity was studied in terms of age, tenure and educational level and Blau index used in measuring diversity. The finding of the study is that there exist a significant relationship between TMT demographic and business strategy. TMTs with younger managers, people with less tenure and higher education levels had greater emphasize on differentiation strategy. Moreover, younger managers and those with more tenure were reported to prefer lowered operation and maintenance expenses hence promoting efficiency. Business strategy on the other hand

was observed to have a critical effect on firm performance. Greater differentiation was associated with greater firm performance. Moreover, TMT education level was concluded to have a significant direct effect on firm performance. The more educated TMT made contribution to better organizational performance. This study was limited in that it used secondary data in studying some variable that are qualitative in nature. The information obtained may not have fully captured the features of the study variables as expected. Moreover, the study used financial measures of performance which may not be adequate in measuring the impact of the independent variables which are qualitative in nature.

Shin, Kim, Lee and Bian (2013) identifies social integration of TMT as an intervening variable between SHRM practices and organizational performance. Social integration is a sign of unified diversity. Social integration is observed as the degree of psychological attachment observed between members of the same team. Social integration is experienced through inclusion of the diverse members of the workforce. Diversity management is one of the components of Strategic Human Resource Management. It can thus be observed that it is the role of the human resource department to come up with policies that ensure that a firm has the right mix of talent and skills in the TMT to enhance the company's ability to meet its strategic goals. One way to achieve this is through diversity management. According to Stockdale and Crosby (2004), diversity management is defined as "a voluntary and planned program aimed at making differences between employees as a source of creativity, complementarity and great effectiveness".

Alcazar, Fernandez and Gardey (2012), further confirms the need to explore intervening variables in diversity studies. According to them, SHRM models that have been presented towards management of diverse groups are still weak. They further assert that traditional affirmative action and traditional diversity management approaches have not been able to achieve the benefits accrued to having a diverse workforce. They recommend the inclusion of a moderating variable in order to understand the relationship between diversity and organizational performance. Financial measures of performance were utilized in this study and included ROA, Operating profit per revenue passenger mile (OPRPM) and operating revenue per revenue passenger mile (ORRPM).

According to Mutuku, Obonyo, Awino and Musyoka (2013), the results obtained from studies on effect of TMT diversity on performance it dependent on the measure of performance used and moderating variable considered. This study was aimed at investigating the effect of involvement culture as a moderating variable of this relationship. The sample size was 33 commercial banks in Kenya. The demographic features considered in this study included gender, age, functional background, academic qualification, tenure and professional qualification. Organizational performance was measured using financial perspective, internal business process, customer focus, learning and growth. The study found out that when diverse TMT is combined with involvement culture its effect on firm performance is significant.

A study by Umans (2013) makes strides in the explanation of the black box by exploring the mediating role of ambidextrous orientation in the relationship between TMT cultural diversity and firm performance. The researcher asserts that although researchers agree on the fact that TMT diversity affects performance, a few of the researches have been done to explain the black box between the two variables. This study adopted the path dependency model where ambidextrous orientation is seen to have an intervening role. This study used Blau's index in the operationalization of gender diversity. Perceived organizational performance was measured using measures by Delaney and Huselid who utilized an eight point measure of perceived organizational and market performance. TMT age was gauged using standard deviation of the executive ages. This study used regression analysis in explaining the relationship between the dependent and independent variable and when measuring the effect of the intervening variable (Umans 2013). However, the research only carried one diagnostic test i.e., test for multi-collinearity and did not conduct the other tests to ensure that the data fulfilled the requirements for conduction of parametric tests.

A research by Dimetrio (2014) further tries to explore the black box. According to this study, TMT diversity is affected by the method of selection of the team. He further asserts that the interaction between the attributes of the CEO and other senior managers having an effect on the performance of TMT. This is what Shin *et al* referred to as social integration.

Another study by Tanikawa, Kim and Jung (2017), explores the function of age on the relationship between TMT diversity and firm performance. The top management team average age is observed to have a moderating effect on this relationship. TMT age diversity is measured using Blau's index and firm performance is conducted using financial indicators of return on equity (ROE) and returns of asset (ROA). The results indicated a significant and negative effect of age diversity and ROE which is easy and simple to use. This negative relationship was observed to be more intense with

increase in age. However, the use of only financial measures of performance for this study may not have been appropriate in measuring performance. The balanced score card would have been a more effective measure of performance.

3. CONCLUSION AND RECOMMENDATION

From the review carried out in the previous chapters, it can be observed that the effect of diversity on performance is an area that has attracted a lot of studies. However, the results from the studies have been deemed inconclusive. The reason for the inconclusiveness of the studies has been cited as not being able to explore the black box fully. Several researchers unanimously agree that in order to understand the relationship between TMT diversity and firm performance, there is a need to explore the effects of moderating and mediating variables on this relationship. Some of the intervening variables that have been identified include social integration, ambidextrous orientation, social context, strategy, TMT collaboration, environmental uncertainty, TMT collocation, involvement culture and TMT average age among others (Carpenter, 2002; Miche, Dooley & Fryxell 2006; Canella, Park & Lee 2008; Goll et al 2008; Shin et al 2013; Alcazar, Fernandez & Gardey 2012; Mutuku et al; Umans 2013; Tanikawa, Kim & Jung 2017).

It can be observed that the relationship between TMT diversity and performance is quite complex and is affected by a myriad of intervening factors. We can rightfully conclude that there are several intervening variables that are yet to be explored in trying to open the black box between TMT diversity and organizational performance.

This paper proposes the use of inclusive climate and a moderating variable between TMT diversity and firm performance. Some people use diversity and inclusion interchangeably. However, inclusion goes beyond diversity and involves embracing and celebrating the diverse dimensions of different individuals. The optimal distinction theory (ODT) can be used to explain the role of inclusion as a link between TMT composition and firm performance. According to ODT, an individual has two opposing needs. On one hand, they have a need for validation and acceptance by other members of a group. On the other hand, they have an equal need to be unique and have a distinct personality. These needs should be maintained at optimal level where people can identify themselves with certain groups and experience acceptance and prevent isolation which may occur if a person becomes too individuated (Shore, Randel, Chung, Dean, Ehrhart & Singh 2011).

Shore *et al* (2011) further observes that uniqueness of a person will improve a group's performance if that unique individual feels accepted into that group. Exclusion on the other hand results with low sense of belongingness which can have undesirable effects on psychological health and work attitudes.

There are several gaps that can be identified from the theoretical and empirical review. There exist some theoretical gaps in the study. For instance, the upper echelon theory support diversity studies by showing that having a diverse TMT could improve performance as they make decisions and interpret them depending on the experiences gained throughout their lives. Having TMT with diverse background provides the team with a broad perspective on the issue at hand improving the quality of the decisions made. However, a highly diverse TMT is prone to group conflicts which can be counterproductive. The theory does not give ways of resolving the conflict.

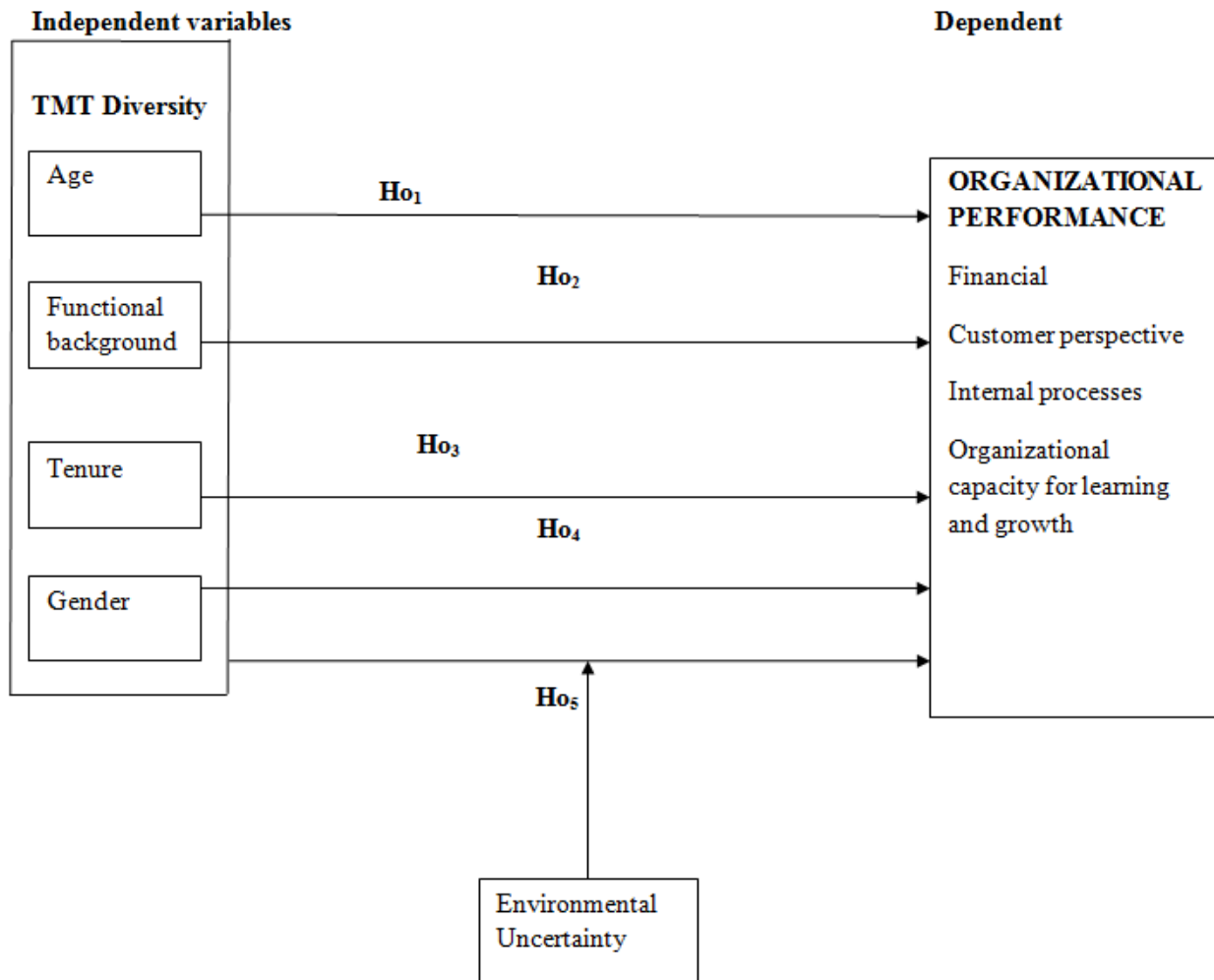
The optimal distinctiveness theory is in agreement with the RBV theory where the heterogeneity of the individual is seen as a strategic resource. It however shows that the benefits of diversity can only be experienced when the unique individuals feel accepted into the group. Nevertheless, this theory does not clearly outline how this inclusion can be achieved.

The empirical review has unearthed several gaps in the diversity studies. Most of the studies are in agreement on the need to explore the effect of intervening variables on the relationship between TMT diversity and firm performance. Alcazar, Fernandez and Gardey (2012), recognizes that the existing SHRM models towards management of diversity are still weak. It is thus evident that there are several intervening variables that are yet to be explored in relation to diversity studies. This review suggests the exploration of inclusion as a moderating variable between TMT diversity and organizational performance.

Another gap that was identified when reviewing the empirical studies was on the methods that were used in measuring organizational performance. Some studies just used financial measures in gauging the effect of TMT diversity on organizational performance. Diversity is a complex and a multifaceted concept and its effects permeate all dimensions of an organization. Using a single measure of organizational performance may not give an accurate picture of the relationship.

This review recommends the exploration of the black box in order to demystify the relationship. It further recommends the TMT diversity in terms of age, tenure, functional diversity and gender. Organizational performance should be measured using the balanced scorecard that gives a comprehensive measure compared to other performance indicators. The proposed philosophy for this study is the positivist approach where knowledge is based on fact. The knowledge will be obtained by collection of both qualitative and quantitative data. The proposed methodology for this study is descriptive and cross-sectional study design. This study design is appropriate for this study since it enables a researcher to get answers to the research questions that are critical in determining the answers to what, who, how, when and where in relation to the issue under study (Creswell 2008). It further recommends data collection using structured questionnaires and stratified random sampling method will be applied.

Conceptual Framework



REFERENCES

- [1] Anonymous. (2017). Companies with more women board directors experience higher financial performance, according to latest catalyst bottom line report. <http://www.catalyst.org/media/companies-more-women-board-directors-experience-higher-financial-performance-according-latest>
- [2] Barney (1991). Firms Resources and Sustained Competitive Advantage. *Journal of Management*, 17(1), 99-120
- [3] Brewer, M.B. (1991). "The social self: On being the same and different at the same time". *Personality and Social Psychology Bulletin*, 17, 475-482
- [4] Cannella Albert, A., Park, Jong-Hung & Lee Ho-Uk. (2008). Top Management Team Functional Background Diversity and Firm Performance: Examining the Roles of Team Member Colocation and Environmental Uncertainty. *Academy of Management*, 51(4): 768-784

- [5] Charles, M. Carson, Don, C. Mosley Scott, L. & Boyar (2004). Performance Gains through diverse top management teams: team performance management. *An International Journal*, 10(5): 121-126
- [6] Eagly, A. & Carli, L. (2007). Women and the Labyrinth of Leadership. *Havard Business review*. <https://hbr.org/2007/09/women-and-the-labyrinth-of-leadership>
- [7] Ferris, G. R. Frink, D. D. & Galang. (1993). Divesity in the Workplace: The Human Resource Management Challenge. *Human Resource Planning*, 9 (1), 41-51
- [8] Goll, R., Brown, N., Johnson & Rasheed. (2008). Top management team demographic characteristics, business strategy, and firm performance in the US airline industry: The role of managerial discretion. *Management Decision*, 46 (2), 201-222,
- [9] Hambrick, D., & Mason, P. (1984). Upper Echelons: The Organization as a Reflection of Its Top Managers. *The Academy of Management Review*, 9(2), 193-206. Retrieved from <http://www.jstor.org/stable/258434>
- [10] Hewlett, S., Jackson, M., Cose, E., & Emerson. (2012). Vaulting the color bar: How sponsorship levers multicultural professional into leadership.
- [11] Hill, Miller, Benson, K. & Handley, G. (2016). Barriers and Bias: The status of women in leadership. Washington DC: AAUW Publishers.
- [12] Hunt, V., Layton & D., Prince. (2015). New research makes it increasingly clear that companies with more diverse workforces perform better financially. <http://www.mckinsey.com/business-functions/organization/our-insights/why-diversity-matters>
- [13] Martell & Carool (1995). Which executive human resource practices for the top management team are associated with high firm performance? *Human resource management*, 34 (4), 497-872
- [14] Mor, B. M. E. (2006). Managing diversity: Toward a globally inclusive workplace. Thousand Oaks, Calif. [u.a.: Sage Publ.
- [15] Mutuku, C., Obonyo, K., Awino, Z.B. & Musyoka, M. (2013). Top Management Team Diversity, Involvement Culture and Performance of Commercial Banks in Kenya. *DBA Africa Management Review*. 3(2): 70-80
- [16] Opstrup, N., Villadsen, A. (2015). The right mix? Gender diversity in top management teams and financial performance. *Public Administration Review*, 75, 291-301
- [17] Pfeffer J. & Salancik G.R. (1978). The external control of organizations: a Resource dependent Perspective. Harper & Row, New York, NY
- [18] Pletzer, J. Nikolova, R. Kedzior & Voelpel, S. (2015). Does gender matter? Female representation in corporate boards and firm performance- A metaanalysis. *PloS One*, 10 (6), 305
- [19] Ruiz-Jimenez, Maria, J. & Fuentes-Fuentes, Maria (2016). Management capabilities, innovation and gender diversity in the top management team: an Empirical analysis in technology based SMEs. *Management Journal*, 19 (2), 107-121
- [20] Rynes, S. & Ronsen, B. (1995). A field Survey of factors affecting adoption and perceived success of diversity training. *Personnel Psychology*, 48(2), 247.
- [21] Shen, J., Chanda, A. D'Netto & Monga, M. (2009). Managing diversity through human resource management: an International perspective and conceptual framework. *Journal of Management*, 20(2): 235- 251
- [22] Sherbin, L. & Rashid R. (2017). Diversity doesn't stick without inclusion. *Havard Business Review*, 22(1), 341-365
- [23] Shore, Randel, Chung, Dean, Ehrhart & Singh. (2011). Inclusion and Diversity in work groups: A model for Future Research. *Journal for Business Management*, 37(4): 1262-1289
- [24] Simon, T.L & Peterson, R.S. (2000). Task Conflict in top management teams: the pivotal role of intergroup trust. *Journal of Applied Psychology*, 85(1), 102-111

- [25] Susan G. Michie, Robert S. Dooley & Gerald E. Fryxell. (2006). Unified diversity in top-level teams: Enhancing collaboration and quality in strategic decision-making. *International Journal of Organizational Analysis*, 14(2), 130-149,
- [26] Sweigart, A. (2012). Women on board for change: The Norway mode of boardroom quotas a tool for progress in US and Canada.
- [27] Swiegers, G. & Toohey, K., (2013). Waiter is that inclusion in my soup? A new recipe to improve business performance. <https://www2.deloitte.com/content/dam/Deloitte/au/Documents/hman-capital/deloitte-au-hc->
- [28] Tajfel, H. & Turner. (1979). *Social identity and intergroup relations*. Cambridge: Cambridge University Press.
- [29] Thomas, R. R. (2011). *World class diversity management: A strategic approach*. Readhowyouwant.com Ltd.
- [30] Umans, Timurs. (2013). Top management team cultural diversity and firm performance: mediating role of ambidextrous orientation. *Corporate Ownership and Control*, 11(1), 1-10